New Markets Tax Credit Coalition

New Markets Tax Credit
Fact Sheet

The New Markets Tax Credit (NMTC) was created to address the lack of capital available to business and economic development ventures in low income communities. The NMTC provides the incentive of a federal tax credit to individuals or corporations that invest in Community Development Entities (CDEs) working in targeted low income communities.

Community Development Entities
CDEs are the investment vehicle for the NMTC. An organization must be certified as a CDE by the CDFI Fund within the Treasury Departments before it can apply for an allocation of Credits. To date, close to 2,000 organizations have been certified as CDEs. In order to qualify as a CDE, an organization must:

- Have a primary mission of serving or providing investment capital for low income communities, and
- Be accountable to residents of that community through a governing or advisory board.

Applying for an Allocation of NMTCs
Once certified, a CDE can apply to the CDFI Fund for an allocation of NMTCs. Competition for Credits is steep and applications are scored in four areas:

- Community Impact – the extent to which a CDE targets economically distressed communities, has the active participation of community representatives and can demonstrate programmatic impacts;
- Business Strategy – A CDEs must describe the economic distress and needs of the target area and demonstrate how the CDE plans to provide financial products and services that address the needs of the community;

NMTC Quick Facts

- Enabling legislation (PL 106-554) signed in to law as part of the Community Renewal Tax Relief Act of 2000
- NMTC is the largest federal economic development initiative to be launched in 20 years with $15 billion in NMTC investments being generated by 2007
- NMTC is administered by the CDFI Fund within the Department of the Treasury
- The IRS issued a temporary rule for the NMTC Program in December, 2001, with a revised rule issued in March 2004 and the final rule issued on December 22, 2004.
- The CDFI Fund accepts CDE Certification Applications on a rolling basis and issues NMTC Allocation Applications annually, usually during the summer.
- To date, the CDFI Fund has made 170 awards totaling $8 billion in NMTC allocation authority and these Credits have been used to raise close$3 billion in private equity investment targeted to low income communities.
- Under current law, the last $3.5 billion in NMTC allocations will be awarded by the CDFI Fund in the Spring of 2006.

- Capitalization Strategy – A CDE must demonstrate that they have investors committed to or interested in investing in the CDE or a strategy for securing investments; and
- Management Capacity – A CDE must demonstrate that they have the experience and the staff and partners to execute and effective NMTC strategy

Securing Private Investors
If awarded an allocation of NMTCs, a CDE will then need to secure investors to make equity investments in the CDE in exchange for the Credit. Once an equity investment is made in the CDE, the investor can claim the NMTC worth 5% of the investor's equity in the first 3 years and 6% in the last 4 – (39% tax credit over 7 years). The CDE in turn will be required to use substantially all of the investor's equity to make qualified low

Uses of NMTC Investments
A CDE can use its investments to make loans or investments in qualified businesses, invest in or loan to other CDEs, purchase qualified loans from other CDEs, or provide financial counseling to qualified businesses or community resident. While substantially all of a CDE's investments must be targeted to the low income service area identified by the CDE, there is significant flexibility in the types of businesses and development activities that can NMTC investments can support – including community facilities like child care or health care facilities and charter schools, for-profit or non-profit businesses, and homeownership projects.

Oversight
The CDFI Fund administers CDE certification, the allocation of NMTCs, and monitors CDE compliance once Credits are awarded. The Internal Revenue Service (IRS) is responsible for issuing guidance on the NMTC and monitors tax payer compliance. The Program has been operating under a temporary rule issued by the IRS in December of 2001 and a final rule on the program will be issued by the end of 2004.

NMTC Projects:

The following NMTC project descriptions were provided by Round I NMTC allocatees and illustrate how the NMTC is making investments possible in low income communities and adding value to community development efforts.

Arbor Park Place. In Cleveland, Ohio, the $6.2 million revitalization of the Arbor Park Place shopping center was made possible with $1.57 million of NMTC financing. The financing came from Key Bank, a large commercial financial institution based in Cleveland and with branches in twelve states and the Cleveland New Markets Investment Fund, which is a new fund created by a private civic entity, Cleveland Development Advisors, Inc. Arbor Park Place had long been considered among Cleveland's most blighted shopping centers in one of its most economically distressed neighborhoods. The revitalization of the plaza brought a new grocery store to the neighborhood, a new Key Bank retail banking center, and several other tenants.

The Bethel Center. Bethel New Life, a faith-based community development corporation in the low-income West Garfield and Austin neighborhoods of Chicago used $1.5 million of its NMTC allocation to help develop the 23,000 square foot Bethel Center. The Center houses employment services and child development facilities as well as a technology community center and six commercial storefronts. The Center serves an anchor at a major transit stop and is expected to spur as much as $100 million in future development on the West Side of Chicago.

Katahdin Project. In Maine, Coastal Enterprises, Inc. made a $31.5 million long-term NMTC loan to Katahdin Forest Management, LLC (KFM), which provided additional working capital for two large pulp and paper mills. These investments have resulted in the direct employment of 650 people, potential jobs for another 200, and the indirect employment of another 1,500. The Katahdin Project has also helped to diversify the area economy via the development of new high-value-added wood processing enterprises and recreational tourism.

Market Creek Plaza. Clearinghouse CDFI helped make possible the development of Market Creek Plaza, a commercial and cultural center in southeastern San Diego. It is located on the site of an abandoned aerospace factory. Clearinghouse CDFI made a $15 million below market interest rate NMTC loan to Market Creek Partners, LLC, which owns Market Creek Plaza. The plaza was designed and developed through a community-based process and is now fully leased and completely open. Tenants include a variety of retail stores as well as a 57,000 square foot Food 4 Less supermarket, which is the first supermarket to move into the neighborhood in three decades. To date, Market Creek Plaza has created nearly 200 jobs.

West Virginia Coal Mine. In West Virginia, it was not until the NMTC was available that a coal mine in the small town of Pineville was able to move forward. The West Virginia Community Loan Fund, Inc., a subsidiary of First State Bank, made a $1.2 million NMTC loan to the coal company for the purchase of equipment. The loan helped fill a crucial gap in the financing of this $3.7 million project (of which the remaining funds came directly from the coal company). Since the Pineville coal mine opened in mid-2004, it has been a resounding success. The mine generated a $4.8 million gross profit in its first six months and created fifty new jobs. The jobs are also well compensated – $50,000 to $55,000 a year – a significant income for this economically-depressed part of West Virginia.

For additional information and resources on The NMTC, Contact:
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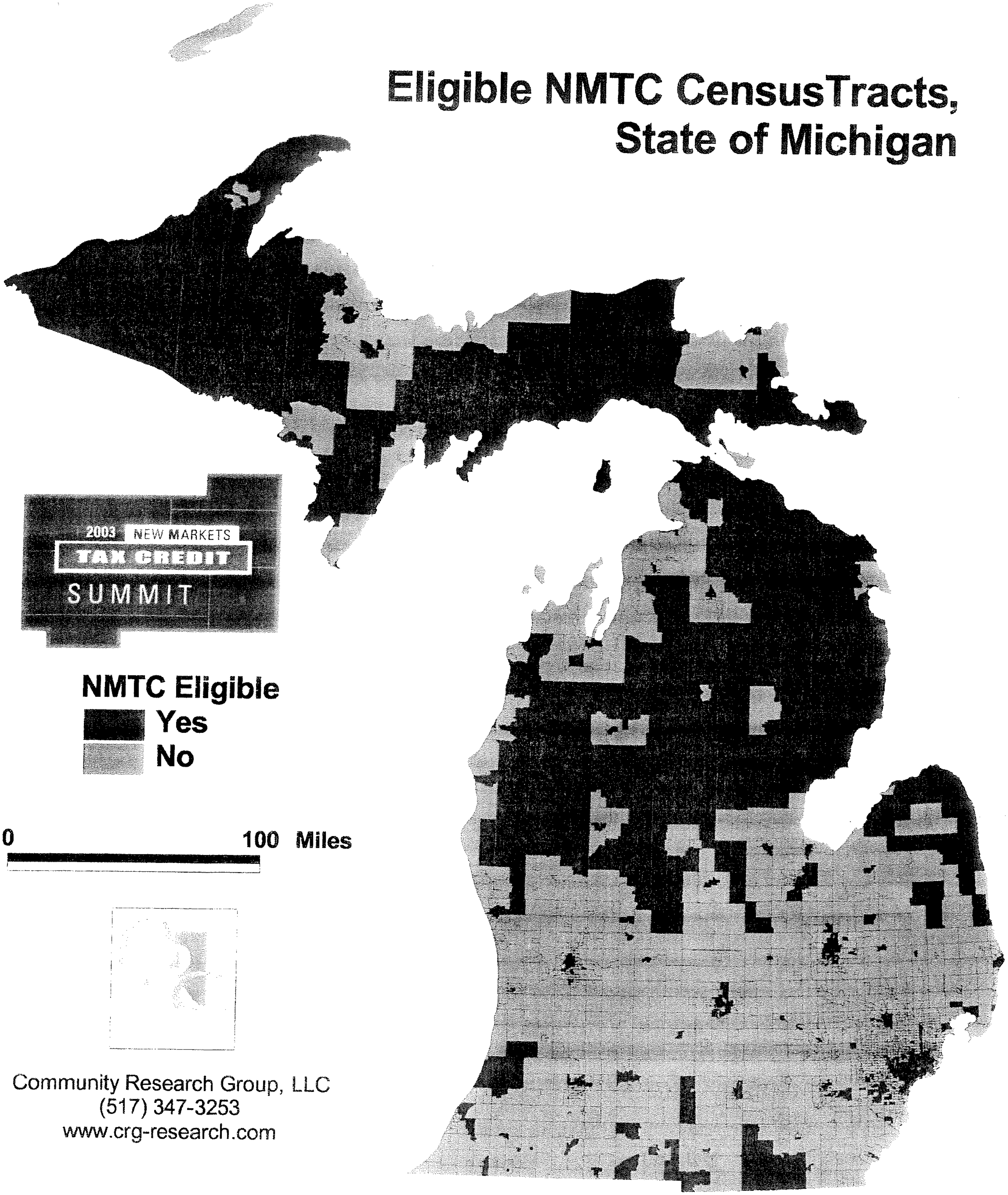
Prepared for the NMTC Coalition by Rapoza Associates

Eligible NMTC CensusTracts, State of Michigan



MICHIGAN

Allocatees: Based in MI	Round 1 – 2003 Allocation	Round 2 – 2004 Allocation	Round 3 – 2005 Allocation	Total
Wayne County – Detroit CDE		$27 million		$27 million
Michigan Magnet Fund			$60 million	$60 million
				Total: $87 million

Allocatees: Primary Service Area Includes MI	Round 1 – 2003 Allocation	Round 2 – 2004 Allocation	Round 3 – 2005 Allocation	Total
NCB Development Corporation		$75 million		$75 million
Urban Development Fund, LLC	$15 million	$57.5 million		$72.5 million
The Valued Advisor Fund, LLC			$50 million	$50 million
Empowerment Reinvestment Fund, LLC	$10 million	$25 million		$35 million
Local Initiatives Support Corporation (LISC)	$65 million		$90 million	$155 million
				Total: $387.5 million

NMSC New Markets Support Company LLC
An affiliate of LISC

Martineau Division-Oakes (Grand Rapids, MI)

Project Description:
Rehabilitation of Several Commercial Properties

Project Type:
Real Estate – Gallery, Retail & Live-Work Space

LISC Program:
Michigan State

Investor:
National City CDC

Lender:
National City Bank & Heartside Non-Profit Housing Corp.

Developer:
Dwelling Place of Grand Rapids, Inc.

COMMUNITY IMPACT BY THE NUMBERS

$7.8 million
NMTC Investment

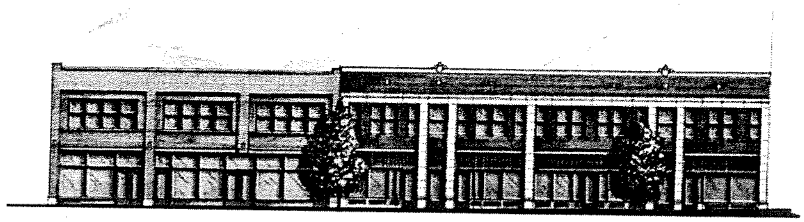
12,410 sq. ft.
Commercial Space

23
Artist Live-Work Space

125
Construction Jobs

20
Permanent Jobs

Background:



Martineau Division-Oakes Project

The Martineau Division-Oakes project is located in the Heartside district of Grand Rapids, directly south of the City's central business district. From the late 1800s through the mid 1900's, it was a thriving mixed-use district with modest apartments over commercial store fronts, mid-size manufacturing companies and warehouse facilities. Between the 1950s and 1980s, the neighborhood suffered from disinvestment and decline as residents migrated to the suburbs. The area became characterized by its vacant storefronts, seedy bars and poor houses.

Dwelling Place of Grand Rapids, Inc., a nonprofit developer, has played a critical role in the overall redevelopment of this area and in fostering, stabilizing and empowering this community. The Martineau Division-Oakes project will redevelop the most dilapidated block on the street and stimulate additional redevelopment by other developers. The project's art theme also fits into the Cool Cities Initiative launched by Michigan Governor Jennifer Granholm in December 2003. This Initiative seeks to encourage the growth of "cool cities" — hip, urban environments that attract and keep younger workers.

The Project:

The Martineau Division-Oakes project involves the purchase of several parcels on Division Avenue in Grand Rapids for rehabilitation as a mixed-use development for arts-related activities. The project is located in a census tract where more than 50% of residents live below the poverty line and the median income is less than 60% of the area median income. A number of the parcels contain empty dilapidated buildings ranging between two and three stories, and one parcel is a vacant lot. The project will create 23 apartments that provide live-work space for artists and approximately 12,410 sq. ft. of commercial space. Calvin College, the anchor tenant, will use much of this space for its art professors and student studio space. The total project cost is $10.6 million.

New Markets Support Company, LLC (NMSC), an affiliate of Local Initiatives Support Corporation (LISC), used $7.8 million of New Markets Tax Credit (NMTC) authority to support an equity investment by an investment fund, which allowed a LISC subsidiary CDE to make a loan and equity investment that reduced the project's debt service and closed a financing gap. National Bank Community Development Corporation provided the equity to the investment fund in consideration of NMTCs, Historic Tax Credits and other economic benefits, and lenders to the fund included National City Bank and Heartside Non-Profit Housing Corporation, which used state and local HOME funds for the project.

Community Impact:

Given that four galleries are currently located in the Heartside neighborhood, the project is expected to assist in creating a critical mass of artists who will have a major impact on the area. Additionally, within one block of the project site, a three story mural by nationally known artist Richard Hass was unveiled in the Spring of 2004. This mural is expected to be destination art for the region and will attract people into the area which will feed the galleries and support the artists.

The project created approximately 125 construction jobs and 20 permanent jobs.

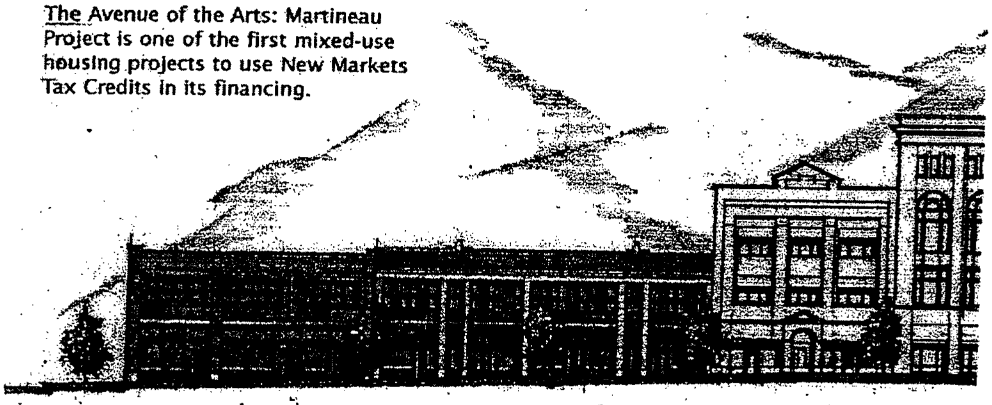
NMTCs fund mixed-use project

By Bendix Anderson

Grand Rapids, Mich. – When Congress created the New Markets Tax Credit (NMTC) program in 2000, affordable housing developers immediately began thinking about how they could use the program to finance mixed-use projects that include affordable rental housing.

They finally seem to have figured it out.

In December 2004, Dwelling Place of Grand Rapids, an affordable housing developer, closed the financing for its Avenue of the Arts: Martineau Project, a mixed-use development in the historic Heartside/Arena district here. Workers will begin the rehabilitation of four historic buildings into apartments and commercial space in early 2005.



The Avenue of the Arts: Martineau Project is one of the first mixed-use housing projects to use New Markets Tax Credits in its financing.

When it's finished about a year after that, the Martineau Project will include 23 big live/work apartments averaging about 1,500 square feet in size and all reserved for low-income artists. These apartments will be set above 12,410 square feet of commercial space that will include artists' galleries, studios, a café and a catering business.

The $10.6 million project uses four different kinds of tax credits, federal HOME funds and bank debt. A big piece of its funding came from the $2.3 million in equity that the Martineau Project received from the sale of its $3 million allocation of NMTCs.

Gathering investments

The NMTC program is designed to finance only a fraction of the cost of any project – its tax credits are meant to be mixed with other investments (see sidebar).

Projects can receive an allocation of NMTCs equal to 39% of the total amount of qualified equity investments that are put into the project. So to receive its full allocation of $3 million in NMTCs, the Martineau Project needed to gather $7.8 million in qualified equity investments.

The first part of that $7.8 million was the $2.3 million that would come from the sale of the project's NMTCs. The equity from the expected sale of yet-to-be-allocated NMTCs is counted as a qualified investment and counts toward the total that determines the amount of credits a project can receive.

The Martineau Project's credits were purchased by National City Community Development Corp., a subsidiary of National City Corp., the main private investor in the project.

The project's qualified equity investments also included $1.4 million in equity from the sale of federal historic rehabilitation tax credits to National City Community Development Corp.

Historic tax credits are generated by the cost of building a project, specifically the project's eligible basis. This added another moving part to an already dizzyingly complicated financing scheme.

"If your cost goes up, you generate more historic tax credit equity, which allows your qualified investment to go up, which will generate more New Markets Tax Credits," said George Larimore, a certified public accountant and an investment specialist for Grubb & Ellis|Paramount in Grand Rapids, Mich. "It's fun."

The Martineau Project's qualified equity investment also includes $1 million in HOME funds: a $620,000 HOME grant from the Michigan State Housing Development Authority and a $400,000 grant from the city of Grand Rapids. Putting this grant money through the process of generating

NMTCs required some flexibility from both the city and the state.

The federal government can reclaim HOME grants if a development fails to comply with the program's rules. Therefore, the city and state agencies that distribute HOME grants typically ask for a direct secured position in projects they finance, so they can recover the cash if the federal government demands that they return a grant.

But to generate NMTCs, HOME funds need to become qualified equity investments. Unfortunately, if the agencies have a direct secured position in the project, then the grants don't count as equity. Fortunately, the state and city accepted another kind of collateral: a position in the Martineau Investment Fund, LLC.

"It was a challenge to educate them as to what the New Markets program required," said Robert Poznanski, president of the New Markets Support Co., an affiliate of the Local Initiatives Support Corp.

National City Bank made a further commitment to the Martineau Project via a $2 million loan. Dwelling Place, the project's developer, made another $1 million loan to the project.

These two loans were the last pieces of the $7.8 million that eventually generated the NMTCs. To become qualified equity investments that generate NMTCs, the proceeds of the loans were gathered into an investment fund along with the rest of the $7.8 million from the other investments. This fund, the Martineau Investment Fund, LLC, gave its total of $7.8 million in qualified equity investments to the New Markets Investments Fund III, LLC, which generated NMTCs and passed the funds through another limited liability company to the Martineau Project.

The loans will be paid off by the Martineau Project, which will send the debt-service payments back up through the layers of the transaction to the lenders.

Limits of NMTCs

The project also raised money that didn't generate tax credits. Martineau received a total of $649,000 in equity from the sale of Michigan historic tax credits and Michigan brownfields tax credits.

Unfortunately, this money couldn't go into the Martineau Investment Fund because of Michigan's "single-assignment rule."

The rule states that state tax credits can't pass from owner to owner more than once. But Martineau has those three layers of limited liability companies between the investors and the project – at least for the investments that generate NMTCs.

Under the single-assignment rule, state historic and brownfields tax credits would never get through all those layers. "We can't get it to the investment fund, much less the investor," Larimore said.

So the investors had to purchase the state tax credits directly from the project, which Larimore said caused it to miss out on about $230,000 in NMTC equity.

The Martineau Project also received $2.1 million from its developer in equity and deferred fees that also did not generate NMTCs.

The complexity of this project required a lot of work from a lot of people. At its peak, 14 lawyers were working on the development at the same time.

Two of Martineau's apartments will be reserved for households earning up to 50% of the area median income (AMI). Nine more will be reserved for residents earning up to 60% of AMI. The rest are reserved for households earning up to 80%.

The commercial tenants at Martineau will include Calvin College, which will rent space for studios, classrooms and art galleries, and Foodsmith, a catering company that rented space in the building before the renovation.

Dwelling Place, the project's developer, already owns and manages 700 units of housing and 24 commercial spaces in the Heartside neighborhood. The city of Grand Rapids has committed $2 million for improvements to the streets and sidewalks around the project. ■

NMTCs: The basics

The New Markets Tax Credit (NMTC) program was created by Congress as part of the Community Renewal Tax Relief Act of 2000. The program is meant to draw investment into businesses in low-income communities.

The core rules are relatively simple: the Community Development Financial Institutions Fund, a part of the Department of the Treasury, allocates credits to community development entities (CDEs). The CDEs sell the tax credits to investors and pump investor dollars into businesses in census tracts that meet the program's low-income requirements.

NMTCs must be combined with other qualified equity investments. A business' total allocation of NMTCs can equal only 39% of the total qualified equity investments in the project. Qualified equity investments can include grants, equity from some types of tax credits, and even money originally raised through loans (see story). The tax benefits are provided to investors over seven years.

The program rewards developers for finding investors. If no one makes qualified equity investments in a project, its allocation of NMTCs shrinks to zero.

Unfortunately, the rules of the NMTC program forbid combining the credit with federal low-income housing tax credits. For a NMTC project that includes low-income apartments to be viable, its developer must be creative and resourceful in putting together enough public and private investments to pay the high price of building affordable housing.

The NMTC program also limits the residential component of eligible projects – no more than 80% of a NMTC project's income can come from rents.

(For more coverage of how NMTCs are being used, see *Affordable Housing Finance*, October 2004, page 15.)

NMSC New Markets Support Company LLC
An affiliate of LISC

Project Description:
Construction of a Welcome Center, Mercado and Plaza

Project Type:
Real Estate – Office, Retail, Welcome Center & Public Plaza

LISC Program:
Detroit

Investor:
National City CDC

Lender:
City of Detroit

Developer:
Mexicantown CDC

COMMUNITY IMPACT BY THE NUMBERS

$5.0 million
NMTC Investment

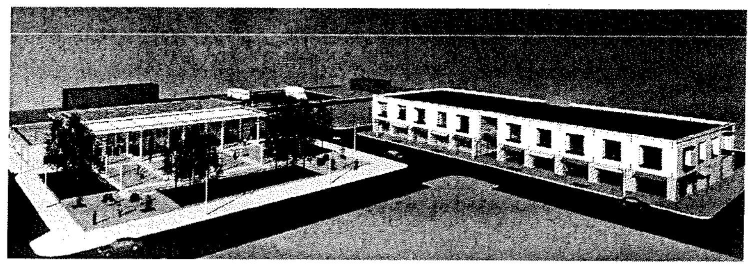
48,000 sq. ft.
Commercial Space

75
Construction Jobs

195
Permanent Jobs

Mexicantown Welcome Center & Mercado (Detroit, MI)

Background:



Mexicantown Project

This Mexicantown project will be built in the heart of Mexicantown in Southwest Detroit, at the base of the Ambassador Bridge to Windsor, Canada, one of the busiest border crossing in North America. It is an area that has experienced substantial revitalization over the past five years, mostly due to the work of community development corporations in the area.

Formed in 1989, Mexicantown Community Development Corporation, the developer, is a not-for-profit corporation whose mission is to foster economic development in the Mexicantown community of Southwest Detroit. The neighborhood has anticipated this project for over 10 years.

The Project:

The Mexicantown project is located within a Federal Empowerment Zone in a census tract in which more than 32% of residents live below the poverty line. It represents a major development that will create a permanent venue for economic and cultural activity. The project includes a 5,000 sq. ft. Welcome Center, 13,000 sq. ft. Mercado, 30,000 sq. ft. retail and office building and a Public Plaza. The total project cost is approximately $16.2 million.

New Markets Support Company, LLC (NMSC), an affiliate of Local Initiatives Support Corporation (LISC), used $5.0 million of New Markets Tax Credit (NMTC) authority to support an equity investment in an investment fund, which allowed a LISC subsidiary CDE to fund reserves and make loans to the project that will help to close a financing gap and provide working capital that the project needs to succeed. National City CDC provided the equity to the investment in consideration of NMTCs and other economic benefits, and the City of Detroit provided a loan to the fund using the proceeds of a HUD Section 108 Loan. Other financial support is being provided by Wayne County and State of Michigan, which recognize the huge impact the project will make, as well as through an EDI grant, Economic Development Administration grant, an Office of Community Services grant (obtained through a small recoverable grant funded by LISC), CDBG and individual/foundation capital campaign donations.

Community Impact:

The Mexicantown project will transform the image of the State of Michigan, the City of Detroit, and Mexicantown as visitors encounter the cultural offerings and retail collections available in the Bagley Avenue district. It will optimize Mexicantown's identity as a tourist and entertainment destination. The development will result in increased tourism expenditures in Detroit and Southeastern Michigan and will offer cultural and arts programming within the Mexicantown Mercado and in the Public Plaza. The project is anticipated to be the future "heart" of the Latino community. Its Welcome Center, Mercado and Plaza will honor the rich history of Latinos in the City and the State while creating a more prosperous future for this vibrant, diverse and historical neighborhood.

The Mexicantown project is expected to create 84 new businesses, 195 new jobs, 75 construction jobs and $16 million in annual retail revenues. Additionally, tourism expenditures by visitors to the State of Michigan Welcome Center are expected to generate $19 million.